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SUBJECT: GUATEMALA TAKES STEPS TO RESOLVE ELECTRICITY CRISIS

¶1. Summary: During a recent lunch with the Ambassador, Guatemalan Energy and Mines Minister Carlos Meany detailed steps the GOG has taken to mitigate a shortage of electricity that would have resulted in blackouts by April 2009. The Ministry has signed contracts to expand Guatemalan electrical capacity by approximately 71 percent to bring total national generating capacity to 2,729 megawatts. The contracts are a culmination of a national energy plan developed by Meany and approved by President Colom in January. The first 200 megawatts are scheduled to come on-line by the end the year with the interconnection of the Guatemalan and Mexican electrical grids. Remaining generation capacity will come on-line between 2010 and 2014 with the completion of a variety of coal and hydroelectric projects. All of the projects Meany cited were supported by signed contracts that included stiff penalties if the providers failed to deliver completed projects. If the contracts are completed on time, the expanded supply should keep Guatemalan electricity supply comfortably ahead of demand over the next five to ten years. End Summary

Guatemalan Electricity Situation

¶2. Over the past five years electricity demand in Guatemala increased by an average of 100 megawatts per year while supply increased only marginally. Current total electricity generation capability is approximately 1600 megawatts and demand is 1500 megawatts. This narrow surplus together with continued demand increases led analysts to predict brownouts or rolling blackouts by April 2009.

National Energy Plan

¶3. On January 21, President Colom approved Minister Meany's plan to avert a possible electricity crisis by expediting the completion of the interconnection of the Guatemalan and Mexican electrical grids (part of Plan Puebla-Panama to improve and integrate Central American and Colombian infrastructure) and signing contracts to increase domestic electricity production by hydroelectric and coal production.

The GOG decided to focus on coal and hydro-electric production since current oil prices make petroleum-based electricity production 50 to 300 percent more expensive than coal or hydro-electric production.

Steps taken to date

¶4. The GOG has signed contracts that will gradually increase Guatemala's electricity supply by 71 percent from 1609 megawatts currently to 2,729 megawatts by 2014. The GOG granted contracts to large firms with international experience in large energy production facilities such as Duke Energy and Jaguar, with approximately \$1.8 billion in total financing coming from multi-national lending institutions and private firms, primarily in Europe and the United States. The interconnection with Mexico, due to come on-line by the end of the year, will add 200 megawatts to national

electricity supply. New coal plants should provide an additional 470 megawatts by 2013 and one small fuel-oil plant would generate 35 megawatts. In addition, five new hydro-electric facilities should generate 418 megawatts by 2014. Each of these projects has been approved for construction. Twenty-five additional hydro-electric projects, for an with a projected capacity of 2,000 megawatts, are under consideration by the Ministry of Energy and Mines. However, these projects are still in the planning or approval phases and are not yet included in GOG electricity generating capacity projections.

15. Comment: In a May 24 press release, Colom announced the success his administration has had in expediting a resolution to the electricity crisis. The speedy contracting process represents an important step forward in forestalling the electricity crisis and demonstrates the government's ability to act quickly when necessary. While the complexity and relatively long-term nature of energy projects could lead to delays in implementation, it appears the GOG is on track to resolving this potential crisis.

Derham